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Spain

Retail Food Sector

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Report Highlights:

The concentration of the food distribution sector in Spain in fewer operators continues. The key to penetrating Spain's retail food market is to establish and maintain relationships with importers/distributors. Competition from other EU suppliers is stiff, but continuous demand for new products offers possibilities for U.S. products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
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I. Market Summary

The organization of Spain's distribution sector has changed dramatically in the last three decades, due to economic development, and new technology, as well as the change of several consumer habits, as follows: (a) smaller household sizes, (b) older population, (c) more women in the labor force (d) a decrease in unemployment, (e) an increase of the urban population and (f) longer distances from home to the work place or school.

In general, the sector has become more concentrated and specialized, with greater market power held by fewer companies. Since the early '70 to the end of the century the number of grocery outlets has been reduced to almost one third. At the beginning of 2000, there were only 41,239 traditional outlets, while the number of supermarkets and hypermarkets has increased. It is estimated that by 2005, only half of the traditional outlets currently operating will remain in the business. Although the tendency during the last few years was that the number of medium size supermarkets and discount outlets increased, while the number of hypermarkets slowed, during 1999, this tendency has reversed. Total sales in the hypermarkets grew by 7.5 percent, while sales in supermarkets grew by 5.3 percent. Within the supermarkets those that have experienced a higher growth are the outlets with an area of between 400 and 2,500 square meters. The hard discount outlets are new players in the Spanish distribution system. In Spain the first hard discount outlet was opened in 1994 by Lidl and it is expected that this sector will continue growing. The Cash & Carries are enjoying continuously increasing demand from the HRI sector.

As in the rest of the EU and indeed throughout the world, food marketing in Spain is increasingly dominated by fewer companies. In Spain in 1999, just ten companies accounted for about half of total food sales, two percent of the outlets represented 48 percent of total sales, and five percent had 60 percent of the sales. In Spain the first three companies hold 37 percent of total sales. In 1999, a good example of the trend toward fewer and larger companies was the merge between Promodes and Carrefour, which were the Continente and Pryca chains, in Spain. The new group "Carrefour" has a market share of 22 percent of total grocery retail sales in Spain. Total sales of this group in 1999 reached 1.14 trillion pesetas. In addition, several small supermarkets have been bought by larger groups. There are some Spanish companies that are expanding in an attempt to compete with the Carrefour group, the main ones are Mercadona and Eroski.

Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are only two large groups: Euromadi Iberica and IFA Española.

Food producers are concerned about the increasing power that these groups are gaining, complaining that their market position allows them to exact lower prices from farmers and manufacturers. To allow consumers to know the margins, some farmer organizations have called for a labeling system that would show the purchase price as well as the retail sale price of any fresh product. Meanwhile, the food sector companies report fierce competition, lower prices, and narrower profit margins.

While consumption patterns have changed along with the structure of the retail industry, many consumers still prefer to make frequent purchases at neighborhood supermarkets, as well as at the traditional fresh products outlets, like bread, fruit, seafood or meat products. They generally venture to hypermarkets weekly or monthly to buy non-perishable products. As a result of this practice, the number of medium size supermarkets is growing.

Some retail grocery outlets have within their premises small areas where they offer gourmet products, or ready to eat food. The home meal replacement concept is starting to take hold as a high value added product offered by the sector.

Total food production in 1999 was valued at 9.17 trillion pesetas, a current value increase of 2.8 percent. Spanish consumers spent 8.8 trillion pesetas, representing an increase of 2.3 percent from 1998. The products that experienced a higher increase were non-alcoholic beverages, dairy products, juices and processed seafood products. Total grocery sales in 1999 through food distribution chains or groups were 6.57 trillion pesetas, an increase of 10.1 percent from the previous year. About 28 percent of total food expenses took place through the HRI sector.

Currently, the Spain's typical consumer can be characterized as more health conscious, demanding more information about products, and placing a premium on quality and services.

Table I - Number of Retail Outlets

<i>Type of Outlet/Year</i>	1999	2000
Traditional	44,374	41,239
Self-Service > 100 sq. meters	13,447	13,209
Supermarket: 100 to 400 sq. meters	7,963	8,252
Supermarket: 400 to 1000 sq. meters	3,159	3,332
Supermarkets: 1,000 to 2,500 sq. meter	926	981
Hypermarkets	298	306

Source: AC Nielsen

Table II - Percentage of Total Food Sales by Type of Outlet

<i>Type of Outlet/Year</i>	1998	1999
Traditional	9.1%	8%
Self-Service > 100 sq. meters	8.8%	8.1%
Supermarket: 100 to 400 sq. meters	20.9%	21%
Supermarket: 400 to 1000 sq. meters	16.2%	18.7%
Supermarkets: 1,000 to 2,500 sq. meter	13.2%	14.3%
Hypermarkets	31.8%	29.9%

SWOT for U.S. grocery products

Strengths	Weaknesses
U.S. food products are appreciated for their novelty	The product has to be labeled in Spanish
Many U.S. products are known as quality products	Not all the products are in line with the Spanish taste
Attractive packaging	Need to invest to promote new products
Many niche markets for some U.S. products	Lack of knowledge of many U.S. brands
Opportunities	Threats
The American way of life is popular among the young generation.	Stiff competition from similar food products produced in other EU countries.
Many U.S. TV shows and films show U.S. food products.	Import duties increase U.S. product final price.
Spanish consumers want to try new and quality products.	High US\$/Euro exchange rate.
	Transportation cost.

II. Road Map for Market Entry

Entry Strategy

As stated above, the retail market in Spain is very concentrated. It is very difficult for an individual exporter to establish relations with the firms that control most of the business as they prefer to deal with their customary importers/distributors. Furthermore, in general, they do not import the products directly, so it is essential that U.S. exporters wishing to crack this market establish relationships with their distributors. The new to the market exporter should find an importer, agent or wholesaler that will do customs clearances and will advise on compliance with labeling, packaging, and sanitary regulations. Some supermarket chains, however, are directly importing certain products, such as walnuts or pulses, to be repacked in their warehouses.

An important method for finding an importer, agent or distributor for U.S. products is to exhibit at trade shows. Alimentaria, held every other year in early March in Barcelona (and in Portugal in the alternating years), is the leading food show in Iberia, and an excellent venue for introducing a new product and for meeting potential clients and establishing relations.

Distribution Channels

Fresh products, seafood, fruits and vegetables are distributed through the 22 wholesale markets located around Spain. The main grocery retail chains have their own stand in the main cities, where they receive and buy the fresh product from wholesale companies that is later sent to their supermarkets. Purchases of grocery products are managed directly by each group. Distribution companies or chains request that the products they purchase be delivered to their platforms or warehouses and then are distributed to each outlet.

Table III - Company Profile - Main Grocery Retail Chains - 1999

Name of Outlet	Ownership	Sales in Million Pesetas	No. of Outlets	Purchasing Type
IFA Española	Spanish	1,560,573	4,253	Importer/Distributor
Euromadi Iberica	Spanish	1,540,000	13,991	Importer/Distributor

Table IV - Company Profile - Main Food Distribution Companies

Retailer Name	Ownership	Sales in Million Pesetas	N° Outlets			Purchasing Agent Type
			Hyper	Super	Disc	
Pryca + Continente (Grupo Carrefour)	French	1,143,779	114	175	2,160	Importer/Distributor - Direct
Eroski	Spanish	639,919	47	2,000	0	Importer/Distributor - Direct
Auchan (Alcampo)	French	402,200	48	72	0	Importer/Distributor - Direct
El Corte Ingles	Spanish	417,033	17	45	0	Importer/Distributor - Direct
Mercadona	Spanish	453,000	0	400	0	Importer - Direct
Caprabo	Spanish	208,104	14	297	0	Importer/Distributor
Superdiplo	Spanish	191,187	14	274	0	Importer/Distributor
Unigro	Dutch	186,000	2	775	0	Importer/Distributor
Lidl	German	92,500	0	0	270	Importer/Distributor

III. Competition

The food industry in Spain is highly industrialized and competitive. Spain is a major food producer, offering an increasing range of processing products. Large distribution chains and supermarkets have their own private label brands and offer good quality products at lower prices than traditional brands. Besides the domestic sector, neighboring EU countries, the source of most food imports, offer a generous supply of competitive products. In addition to price and logistical advantages, food distributors generally source their products from Spanish producers or from other EU markets, because they are also more apt to comply with EU regulations.

U.S. exports of consumer oriented products to Spain were \$139 million in 1999, with treenuts accounting for sales of \$106 million. U.S. exports of seafood products reached \$59 million, an increase of 18 percent in comparison with the previous year; a further increase is expected for 2000.

IV Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

Seafood in general, and lobster, whiting, squid, salmon, in particular	
Treenuts: almonds and walnuts	Pet foods
Tex-Mex products	Bourbon
Ready-to-eat products	

B. Products not present in significant quantities but which have good sales potential are as follows:

Fresh fruit: pink grapefruit, apples	Surimi
Processed fruit & vegetables and juices	Cake mixes
Snacks	Beer

C. Products not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

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For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site:
<http://www.embusa.es> or <http://www.fas.usda.gov> then look under countries - Spain

NOTE: Average exchange rate: 1997: 146.41 pesetas/\$1; 1998: 149.40/\$1; 1999: 156.33/\$1.
Current exchange rate: 193 pesetas/\$